

RECEIVED

OCT 17 2007

PUBLIC SERVICE
COMMISSION



A W Turner, Jr.
Corporate Counsel
859 258 6339

October 16, 2007

Ms. Beth O'Donnell, Executive Director
Commonwealth of Kentucky
Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED

OCT 17 2007

Executive
Director's Office

Re: Kentucky American Water Information Update

Dear Ms. O'Donnell: *Beth*

Please note the following updates to pertinent information relative to Kentucky American Water. Pursuant to Item 3 as set forth in that certain Order dated June 30, 1995, PSC Case No. 95-238, please find a copy of Kentucky American Water's updated agreements for billing, accounting and collection of sanitary sewer and landfill charges.

Also for informational purposes, please find attached a list updating the most recent status of corporate officers and notation of key employee changes.

Please do not hesitate to contact this office if you have questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "A. W. Turner, Jr.".

A. W. Turner, Jr.
Corporate Counsel

Cc: Gerald Wuetcher

Attachments

AGREEMENT

THIS AGREEMENT, made and entered into on the 4th day of October, 2007, by and between the **LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT**, an urban county government of the Commonwealth of Kentucky pursuant to Chapter 67A of the Kentucky Revised Statutes, 200 East Main Street, Lexington, Kentucky 40507 ("Government"), and **KENTUCKY-AMERICAN WATER COMPANY**, with offices located at 2300 Richmond Road, Lexington, Kentucky 40502 ("Water Company").

RECITALS:

WHEREAS, the Government is the operator of the sanitary sewer system and appurtenances thereto serving Fayette County, Kentucky; and

WHEREAS, the Government has established charges for sanitary sewer services rendered to its customers based upon water usage by such customers and bills such charges on a periodic basis to its customers so served; and

WHEREAS, the Government is obligated to collect delinquent sanitary sewer service charges from its customers so served; and

WHEREAS, Chapter 96 of the Kentucky Revised Statutes permits the Government to enforce collection of rates and charges for the use of sewer facilities by requiring that water service be discontinued until payment is made or some satisfactory arrangement is reached; and

WHEREAS, the Water Company is engaged in the business of providing water service to substantially the same area and customers as are served by the Government and the Water Company is in a position to supply to the Government the customer information the Government requires to compute and monitor collection of its sanitary sewer service charges and to terminate water service for reason of delinquency in the payment of any sanitary sewer service charge by a customer of the Government; and

WHEREAS, the Water Company is authorized, pursuant to Chapter 96 of the Kentucky Revised Statutes, to enter into an agreement with the Government for the termination of water service and discontinuance of the supply of water from its system to any premises at which the sanitary sewer service charge for sanitary service supplied by the Government are unpaid; and

WHEREAS, the Government has requested the Water Company to perform billing, accounting, and collecting for sanitary sewer service customers of the Government including the termination of water service for reason of delinquency in the payment of any sanitary sewer service charge and to reconnect such water service upon all charges, including any reconnect charges, being paid by the sanitary sewer customer; and

WHEREAS, the Water Company is willing to furnish the requested customer and water usage data to the Government, to perform billing accounting and collecting for sanitary sewer service customers of the Government and to disconnect and reconnect such service, all pursuant to and subject to the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the Recitals which are a material part of this Agreement, the mutual covenants hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, it is agreed by and between the parties as follows:

A. BILLING, ACCOUNTING AND COLLECTING

1. The Government and the Water Company shall exchange the following information monthly:

(a) By the second business day of the month following the month to which the list relates, the Government shall provide a list of all properties for which sanitary sewer services have been made available for that month.

(b) By the second business day of the month following the month to which the list relates, the Water Company shall provide a list of all service orders establishing new water services in all service regions for that month.

(c) The Government shall return to the Water Company a copy of the list provided pursuant to subsection (b) above with each entry categorized as sewer, non-sewer or unknown.

(d) With respect to those listings categorized pursuant to subsection (c) above as unknown, the parties shall work together to determine the sewer status of such listings.

2. With respect to all properties from list (a) above which are receiving water service, and all properties from list (b) above which are categorized as sewer, the Water Company shall designate and cause such accounts to be identified on the Water Company's computer records as joint accounts subject to billing for sanitary sewer service charges ("Joint Account"). The Water Company shall bill all such Joint Accounts for sanitary sewer service charges on behalf of the Government at the rates provided to it by the Government pursuant to Paragraph A(4).

(a) Accounts involving exclusion adjustments will be billed at 100% of the customer's usage. The Government will calculate and approve exclusion credits for these accounts monthly or quarterly based on the exclusion information provided by the customer. The Government will transmit the credit information, by e-mail or facsimile, to the Water Company and the Water Company will enter the exclusion credits on the customer's account and bill accordingly.

(b) Accounts involving extra strength adjustments will be billed by the Water Company, with adjustments being based on information provided by the Government. The information required for adjustments will be provided in a spreadsheet format which lists the account name, Water Company identification number (currently premise number)(hereinafter "i.d. number"), adjustment period and adjustment amount. The Water Company will place a debit on the customer's account to be billed during the next billing cycle.

3. The Water Company shall be responsible for the sanitary sewer customer billing, accounting and collecting for only those users of the sanitary sewer system of the Government identified pursuant to Paragraph A(1) above, and only during the term of this Agreement.

4. The Government shall, prior to the commencement of billing, accounting and collecting services by the Water Company pursuant hereto, furnish the Water Company with the ordinance or ordinances establishing the rate or rates to be charged for sanitary sewer services, including both the flat and metered rates. The Government will notify the Water Company of any revisions of such rates which will be accommodated and back billed if necessary. In no event shall the period between notice of the rate change and implementation for billing purposes be more than sixty (60) days.

5. The sanitary sewer customers to be billed by the Water Company pursuant hereto shall be billed on a cycle which is the same as the Water Company uses for the billing of its water service customers.

6. The Water Company shall administer the accounts of the Government and prepare a bill for water service that includes a bill for all customers of the Government receiving sanitary sewer service subject hereto in accordance with the regular and periodic billing procedure followed by the Water Company in the billing of its customers receiving water service. The Water Company agrees to observe the same diligence, policies and procedures in the billing, accounting and collecting of the sanitary sewer accounts subject hereto as it uses in administering the billing, accounting and collecting of its water service accounts, including but not limited to establishment of payment plans, preparation and mailing of delinquent notices, procedures for the handling of medical situations, reconnects and removal of meters. The Water Company reserves the right to change its billing procedures, including the billing frequency, with at least a 90 day notice of execution.

7. In the case of Joint Accounts, the Water Company and the Government will take whatever action is necessary to have sanitary sewer service and the liability therefor placed in the same person/name as is the water service for such account. An example of this requirement would be in the case of rental property, where the landlord is billed instead of the tenant(s) or vice versa.

8. Water bill adjustments which directly relate to the quantity of water discharged into the sanitary sewer system shall be made by the Water Company, accepted by the Government and recognized in determining the billing for sanitary sewer charges, excluding, however, any exclusion credits. The Water Company shall make any other adjustment requested, in writing (which may include a facsimile or an e-mail), by the Government, for the next billing cycle(s) and until such adjustment has been made in full.

9. (a) The Water Company shall (i) calculate, as set forth above, the applicable sanitary sewer charges for each of the Government's sanitary sewer customers identified pursuant to Paragraph 1; (ii) print a water bill including the sanitary sewer service bill therefore, and (iii) deposit such bill in the United States mail,. If it does not interfere with the Water Company's requirement for messages and within space limitations, the Water Company shall include on the invoice a message upon the Government's request, and include an informational insert one time per year. The cost of the insert and handling costs will be at the Government's expense and must be designed to meet the weight, dimension and fold requirements of the Water Company. In addition the Government agrees to use the printers designated by the Water Company.

(b) In addition to the calculation of sanitary sewer service charges as set forth herein, the Water Company shall calculate the applicable state sales and use tax and include same on the bill to customers.

10. All of the Government's sanitary sewer service charges, plus any and all applicable federal, state or local sales, use or other tax, which is currently in effect or which may be imposed during the term of this Agreement, paid by its customers, will be collected and receipted by the Water Company and the Water Company shall transmit to the Government, on a daily basis, the collected balance from the preceding business day. The Government shall be solely responsible for filing any necessary and related tax forms and remitting amounts due to the appropriate taxing entities, subject to any errors in calculation, collection, or transmission by the Water Company. Any reconnect fees, returned check fees, or other fees which may be imposed by the Water Company during the term of this Agreement which are charged to and collected from customers, shall be retained by the Water Company.

11. The Water Company shall maintain accounts receivable data for the Government's customers charged a sanitary sewer service charge. The Water Company shall provide the Government with on-line, read only access to the Water Company database for the purposes of accessing individual sanitary sewer service charge billing

and payment information by any one of the following: name, service address, i.d. number. On request by the Government, the Water Company shall run queries related to sanitary sewer service charges on the Water Company computer which will be transmitted to the Government and may be subject to additional fees. The Water Company will provide a Contract Billing Transaction Report and summary for the sanitary sewer service charges and appropriate taxes. This summary shall include the beginning balances, adjustments, payments, billings, write-offs, and ending balances. A monthly summary report shall also provide totals of receivables over thirty (30) days and over ninety (90) days. An aging listing for each account over thirty (30) days and over ninety (90) days shall also be provided monthly. These reports will be available for review through Online Account Manager. The Water Company will also provide a business analysis explaining the billing variances from the previous month's or previous year's figures using any one or all of the following in this order: 5% difference in the number of bills issued; three (3) days difference in the average number of billed days; 4% difference in the amount of billed sewer revenue.

12. The Water Company shall provide a semi-annual data set match beginning six (6) months after the commencement of this Agreement, said report to be delivered to the Government by the seventh (7th) day of the month following the last month to which such reports relate. That reconciliation will specifically assure that any billing address for which sanitary sewer service charges are being billed lies within the urban service district. This data set match shall be provided in the form of an electronic data file in an industry standard format.

13. The cost of the communication line(s) will be borne equally by both parties. The Water Company and the Government shall each be responsible for their own costs incurred for equipment housed in their respective offices. The Water Company and the Government shall each designate one individual located at their respective Lexington offices as liaison whose primary duties shall be to assist in the implementation of the terms of this Agreement by assisting with the transmission of information required by the Agreement, by overseeing the monthly reports and providing an analysis and explanation of any billing variances, and by responding to questions or requests for information from the public and by informing eligible customers of the assistance program established in Section 16-59.1 of the Code of Ordinances.

14. The Water Company shall shut off water service for non-payment of sanitary sewer service charges and applicable taxes and pursue the collection of delinquent accounts, observing the same diligence, policies and procedures in such shut off situations and collections as it uses in terminating its water service accounts. Pursuing collection of delinquent accounts shall include, but is not limited to, transferring such accounts to a collection agency and filing proofs of claim in bankruptcy actions. The Government, upon seven (7) days written notice, may assume the collection responsibility for any sanitary sewer service account. Further, the Water Company shall restore water service observing the same diligence, policies and procedures as it uses in restoring water service accounts.

15. For purposes of this Agreement, the water service and sanitary sewer service charges shall be considered one unified bill which must be paid in full or which must be the subject of a suitable payment plan in order to prevent termination of water service or collection efforts. Any payment received by the Water Company which is not adequate to pay the bill in full or any payment according to a payment plan, shall be applied first to the water service portion of the bill. After application of the payment to the water service portion of the bill, any remaining amounts will be applied first to the disposal fees portion of the bill and then to the sewer user fee.

16. In consideration of the services to be provided to the Government by the Water Company pursuant hereto, the Water Company will issue an invoice to the Government within fourteen (14) days of the close of each month. The bill will be payable within ten (10) days of receipt. The invoice is to include calculations supporting the invoiced amount based on a charge for each Joint Account billed the prior month as follows:

(a) The charge for each Joint Account billed from and including the effective date of this Agreement shall be sixty-two and two-tenths cents (\$.622), subject to the provisions of subparagraph (b) below.

(b) Requests for payment should be accompanied by a summary of the number of accounts billed. Said charges shall be adjusted each October 1 beginning on October 1, 2008, by an amount based upon the Consumer Price Index for All Urban Consumers, the U.S. City Average ("CPI-u") published monthly by the Bureau of Labor Statistics. The amount to be charged per bill shall be adjusted up or down by a factor determined by averaging the monthly CPI-u published for the twelve-month period ending, and including, August of the year before the October 1 adjustment. Upon termination of the Agreement by either party as set forth in paragraph 16 herein, the Water Company shall be compensated only for the services provided to the effective date of the termination.

B. CUSTOMER AND WATER USAGE DATA

17.1 During the term of this Agreement the Water Company will make available online to the Government the "Billed Services by Premise" report. This information is relative to all current and newly discontinued Water Company customer accounts for Fayette County, Kentucky:

- (a) Customer i.d. number
- (b) Customer name and address
- (c) Revenue class code

- (d) Billing period (service code)
- (e) Previous and current reading dates
- (f) Previous reading, out reading (if applicable)
- (g) Set reading (if applicable), current reading
- (h) Current consumption (usage)
- (i) Past 12 consumptions (if applicable)
- (j) Indicator if reading was estimated
- (k) Accounts receivable inquiry
- (l) Customer status inquiry

17.2. The Water Company shall furnish the Government with on-line access to the following:

- (a) New accounts (new home or building)
- (b) New customer (change of occupant)
- (c) Terminated or transferred accounts
- (d) Totals of receivables more than thirty (30) days with an aging listing
- (e) Service orders establishing new services in all service regions

18. The Government shall have the right, at the Government's request, to perform an audit on site by qualified personnel agreed on by both parties of any records required to determine the accuracy of billing services, accounting, and monthly reports as provided pursuant to this Agreement.

C. MISCELLANEOUS PROVISIONS

19. The term of this Agreement shall be for a period of four (4) twelve (12) month periods beginning on October 1, 2007, subject to sufficient funds being appropriated in each applicable fiscal year by the Government. This Agreement will automatically renew at the end of the initial term, and thereafter at the end of each twelve-month renewal term, upon the same terms and conditions, subject to the provisions of paragraph 16 and subject to sufficient funds being appropriated in the applicable fiscal year by the Government, unless either party provides written notice no later than ninety (90) days prior to the expiration of each term submitting a written proposal containing such terms and conditions to the other party. Either party to this Agreement may terminate the agreement for any reason upon one hundred and eighty (180) days written notice to the other party at the addresses first above written.

20. This Agreement shall be construed to be applicable to only the parties hereto and shall not confer any rights, privileges, or obligation on any third party, including customers of the Water Company and/or the Government.

21. The water service terminated pursuant to this Agreement shall not be restored until all charges, taxes and reconnect fees have been paid or until suitable payment arrangements have been made by the sanitary sewer service customer, but shall be restored thereafter as soon as practicable.

22. In accordance with KRS 96.942, the Water Company shall incur no liability by reason of discontinuing water service pursuant to this Agreement except to the extent of its own negligence or other improper conduct. The Water Company agrees to indemnify, hold harmless and defend the Government, its elected and appointed officials, employees, agents and successors in interest from and against all liabilities, claims, damages, penalties, causes of action, costs and expenses, including reasonable attorney fees, imposed upon or incurred by or asserted against the Government by reason of the intentional or negligent acts, or other improper conduct on the part of the Water Company, its contractors, agents or employees.

The Government agrees to defend, indemnify and hold harmless the Water Company, its employees, agents and successors in interest from and against all liabilities, claims, damages, penalties, causes of action, costs and expenses, including reasonable attorney fees, imposed upon or incurred by or asserted against the Water Company by reason of the intentional or negligent acts, or other improper conduct on the part of the Government, its contractors, agents or employees.

23. In accordance with KRS 96.943, in the event the Water Company wrongfully fails or refuses to discontinue water service pursuant to this Agreement and continues such failure or refusal for a period of thirty (30) days after receipt of written notice from the Government to do so, the Water Company shall be liable to the Government for any

amount due from the sewer user involved.

24. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors.

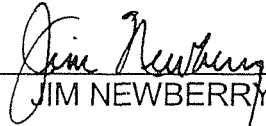
25. This Agreement has been entered into and shall be construed in accordance with the laws of the Commonwealth of Kentucky.

26. After the agreement is executed by both parties, the Water Company will file the agreement with the Kentucky Public Service Commission. It is agreed and understood by the parties hereto that the provisions of this Agreement shall not become effective on October 1, 2007, unless it is filed with the Commission.

27. This Agreement is the entire agreement between the parties and may not be amended, modified or revised except by a written instrument signed by each of the parties.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates hereinafter set forth, but to be effective as of October 1, 2007.

LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT

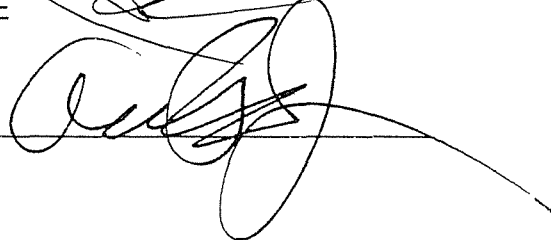
BY: 
JIM NEWBERRY, MAYOR

ATTEST:


CLERK OF URBAN COUNTY COUNCIL

KENTUCKY-AMERICAN WATER COMPANY

BY: 
NICK O. ROWE
PRESIDENT

WITNESSED BY: 

REB/00131602

AGREEMENT

THIS AGREEMENT, made and entered into on the 4th day of October, 2007, by and between the **LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT**, an urban county government of the Commonwealth of Kentucky pursuant to Chapter 67A of the Kentucky Revised Statutes, 200 East Main Street, Lexington, Kentucky 40507 ("Government"), and **KENTUCKY-AMERICAN WATER COMPANY**, with offices located at 2300 Richmond Road, Lexington, Kentucky 40502 ("Water Company").

RECITALS:

WHEREAS, the Government is responsible for disposing of the refuse of the residents of Fayette County, Kentucky; and

WHEREAS, the Government has established charges, known as solid waste disposal fees (hereinafter "disposal fees") to be charged for services rendered to each resident of the urban services district who receives refuse collection services (hereinafter "customers"); and

WHEREAS, the Government bills customers so served on a periodic basis with such charges being based upon the volume of refuse measured by the number of Herbies or Herbie equivalents (hereinafter "Herbies") allotted for each customer's billing address (Herbies being standardized wheeled waste receptacles provided to facilitate the removal of refuse from residents' property by centralized refuse collection services); and

WHEREAS, the Water Company is engaged in the business of providing water service to substantially the same area and customers as are served by the Government; and

WHEREAS, the Government has requested the Water Company to perform billing, accounting, and collecting for disposal fees for customers of the Government; and

WHEREAS, the Government agrees to furnish the Water Company with data on the number and location of Herbies; and

WHEREAS, the Water Company agrees to provide the Government on-line, read only access to the Water Company's data so that the Government can access data regarding the number and location of Herbies at each billing address; and

WHEREAS, the Government agrees to provide any changes in the number and location of Herbies to the Water Company in the form of a computer file which the Water Company will use to update its customer records.

NOW, THEREFORE, in consideration of the Recitals which are a material part of this Agreement, the mutual covenants hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, it is agreed by and between the parties as follows:

A. **BILLING, ACCOUNTING AND COLLECTING**

1. The Government and the Water Company shall jointly designate and cause to be identified on the Water Company's computer records, each customer of the Government who should be billed for the disposal fees (the "Joint Accounts"). The Water Company shall bill all such Joint Accounts for the disposal fees on behalf of the Government. Accounts will be billed by the Water Company at a rate based on

information on the location and number of Herbies at the billing address and is computed for each monthly billing at a monthly rate or a daily rate, if applicable, based on the data updates provided by the Government pursuant to paragraph 8. Such daily rate will be determined using the same method as is used by the Water Company to pro rate water bills.

2. The Government shall, prior to the commencement of billing, accounting and collecting services by the Water Company pursuant hereto, furnish the Water Company with the ordinance or ordinances establishing the rate or rates to be charged for disposal fees. The Government will notify the Water Company of any revisions of such rates which will be accommodated and back billed if necessary. In no event shall the period between notice of the rate change and implementation for billing purposes be more than sixty (60) days.

3. The disposal fees billed by the Water Company pursuant to this contract shall be billed on a cycle which is the same as the Water Company uses for the billing of its water service customers.

4. For all Joint Accounts, the Water Company agrees to observe the same diligence, policies and procedures in the billing, accounting and collecting of the disposal fees as it uses in administering the billing, accounting and collecting of its water service accounts, including but not limited to, establishment of payment plans and the preparation and mailing of delinquent notices. The Water Company reserves the right to change its billing procedures, including the billing frequency, with at least a 90 day notice of execution.

5. In the case of Joint Accounts, the Water Company and the Government will take whatever action is necessary to have the payment of the disposal fees and the liability therefor placed in the same person/name as is the water service for such account. An example of this requirement would be in the case of rental property, where the tenant is billed instead of the landlord.

6. The Water Company shall (i) calculate the applicable disposal fees for each of the Government's customers identified pursuant to paragraph 1; (ii) print a water bill including the disposal fees therefore, and (iii) deposit such bill in the United States mail. If it does not interfere with the Water Company's requirement for messages and within space limitations, the Water Company shall include on the invoice a message upon the Government's request, and include an informational insert one time per year. The cost of the insert and handling costs will be at the Government's expense and must be designed to meet the weight, dimension and fold requirements of the Water Company.

7. All of the Government's disposal fees, plus any and all applicable federal, state or local sales, use or other tax, which are currently in effect or which may be imposed during the term of this Agreement, paid by its customers, will be collected and receipted by the Water Company and the Water Company shall transmit to the Government, on a daily basis, the collected balance from the preceding business day. The Government shall be solely responsible for filing any necessary and related tax forms and remitting amounts due to the appropriate taxing entities, subject to any errors in calculation, collection, or transmission by the Water Company. Any returned check fees or other fees which may be imposed by the Water Company during the term of this Agreement which are charged to and collected from customers shall be retained by the Water Company. As of the date of this Agreement, the Government has determined that the disposal fees are not subject to any taxes. Should that condition change, when it is practical to do so, the Government will

notify the Water Company in writing at least ninety (90) days prior to the effective date of the change. The Government shall pay the Water Company's additional reasonable expenses to accommodate such change.

8. The Water Company shall maintain accounts receivable data for the Government's customers charged a disposal fee. The Water Company shall provide the Government with on-line, read only access to the Water Company data for the purpose of accessing individual disposal fee billing and payment information by any one of the following: name, service location of Herbies, Water Company identification number (currently premises number)(hereinafter "i.d. number"). Such access shall be provided for any billing address for property located within the urban service district boundaries. The Government shall provide a weekly data file listing the i.d. numbers and corresponding changes related to the number of Herbies. The Water Company shall, without delay, load this file onto its database to update the number of Herbies on the Joint Accounts. On request by the Government, the Water Company shall run queries related to disposal fees on the Water Company computer which will be transmitted to the Government and may be subject to additional fees. The Water Company will prepare a monthly revenue summary report for the disposal fees and appropriate taxes. A Contract Billing Transaction Report shall include the beginning balances, adjustments, payments, billings, write-offs, and ending balances. An aging listing for each account over thirty (30) days and over ninety (90) days shall also be provided monthly. These reports will be available for review through Online Account Manager. The Water Company shall furnish a report each month which identifies new water accounts established for the preceding month. The Water Company shall also provide a business analysis explaining the billing variances when compared with the previous month's or previous year's figures using any one or both of the following in this order: 5% difference in the number of bills issued; 4% difference in the

amount of billed disposal fee revenue.

9. The Water Company shall provide a semi-annual reconciliation beginning six (6) months after the commencement of this Agreement, said report to be delivered to the Government by the seventh (7th) day of the month following the last month to which such reports relate. The Water Company shall include a master file of all water accounts in Fayette County, listing water i.d. number, address, name, and number of Herbie units. That reconciliation will specifically assure that any billing address for which landfill user fees are being billed lies within the urban service district.

10. The Government shall have the right, at the Government's request, to perform an audit on site by qualified personnel agreed on by both parties of any records required to determine the accuracy of billing services, accounting, and monthly reports as provided pursuant to this Agreement. The Water Company and the Government shall each be responsible for their own costs incurred for equipment housed in their respective offices. The Water Company and the Government shall each designate one individual located at their respective Lexington offices whose primary duties shall be to act as liaison to assist in the implementation of the terms of this Agreement by assisting with the transmission of information required by the Agreement, by overseeing the monthly reports and providing an analysis and explanation of any billing variances, by responding to questions or requests for information from the public, and by informing eligible customers of the assistance program established in Section 16-59.1 of the Code of Ordinances.

11. For purposes of this Agreement, the water service, sanitary sewer service charges, and disposal fees shall be considered one unified bill which must be paid in full or which must be the subject of a suitable payment plan in order to prevent termination of water service or collection efforts. Any payment received by the Water Company which is not adequate to pay the bill in full or any payment according to a payment plan shall be

applied first to the water service portion of the bill. After application of the payment to the water service portion of the bill, any remaining amounts will be applied first to the disposal fees portion of the bill and then to the sewer user fee.

12. The term of this Agreement shall be for four (4) twelve (12) month periods beginning on October 1, 2007, subject to sufficient funds being appropriated in each fiscal year by the Government. At the end of that term, this Agreement shall automatically renew for successive twelve month periods, upon the same terms and conditions, subject to the provisions of paragraph 13 and subject to sufficient funds being appropriated in the applicable fiscal year by the Government, unless either party provides written notice no later than ninety (90) days prior to the expiration of the then current term submitting a written proposal containing such terms and conditions to the other party. Either party to this Agreement may terminate the agreement for any reason upon one hundred and eighty (180) days written notice to the other party at the addresses first above written.

13. The Water Company will issue a bill to the Government within fourteen (14) days after the close of each month, said bill including calculations supporting the invoice amount based on a charge of thirty-one and six-tenths cents (\$.316) for each Joint Account billed that month. The bill will be payable within fourteen (14) days of issuance. Requests for payment should be accompanied by a summary of the number of accounts billed. Said charges shall be adjustable each October 1 beginning on October 1, 2008, by an amount based upon the Consumer Price Index for All Urban Consumers, the U.S. City Average ("CPI-u") published monthly by the Bureau of Labor Statistics. The amount to be charged per bill shall be adjusted up or down by a factor determined by averaging the monthly CPI-u published for the 12-month period ending, and including, August of the year before the October 1 adjustment. Upon termination of the Agreement by either party as set forth in paragraph 11 herein, the Water Company shall be compensated only for the

services provided to the effective date of the termination.

B. MISCELLANEOUS PROVISIONS

14. This Agreement shall be construed to be applicable to only the parties hereto and shall not confer any rights, privileges, or obligation on any third party, including customers of the Water Company and/or the Government.

15. The cost of the communication line(s) will be borne equally by both parties.

16. The Water Company shall incur no liability pursuant to this Agreement except to the extent of its own negligence or other improper conduct. The Water Company agrees to indemnify, hold harmless and defend the Government, its elected and appointed officials, employees, agents and successors in interest from and against all liabilities, claims, damages, penalties, causes of action, costs and expenses, including reasonable attorney fees, imposed upon or incurred by or asserted against the Government by reason of the intentional or negligent acts, or other improper conduct on the part of the Water Company, its contractors, agents, employees, directors, or officers.

The Government agrees to defend, indemnify and hold harmless the Water Company, its employees, directors, officers, agents and successors in interest from and against all liabilities, claims, damages, penalties, causes of action, costs and expenses, including reasonable attorney fees, imposed upon or incurred by or asserted against the Water Company by reason of the intentional or negligent acts, or other improper conduct on the part of the Government, its contractors, agents or employees.

17. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors.

18. This Agreement has been entered into and shall be construed in accordance with the laws of the Commonwealth of Kentucky.

19. Following execution by both parties, the Water Company will file the agreement with the Kentucky Public Service Commission. It is agreed and understood by the parties hereto that the provisions of this Agreement shall not become effective on October 1, 2007, unless it is filed with the Commission.

20. This Agreement is the entire agreement between the parties and may not be amended, modified or revised except by a written instrument signed by each of the parties.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates hereinafter set forth, but to be effective as of October 1, 2007.

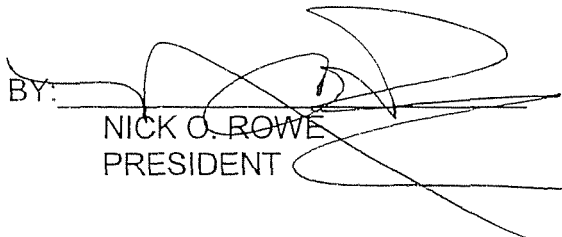
LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT

BY: 
JIM NEWBERRY, MAYOR

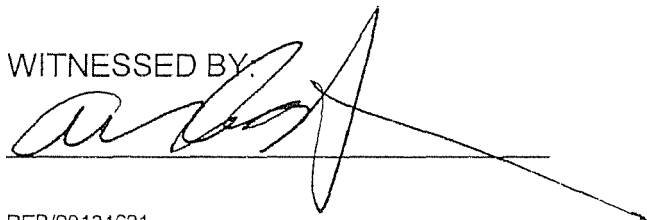
ATTEST:


CLERK OF URBAN COUNTY COUNCIL

KENTUCKY-AMERICAN WATER COMPANY

BY: 
NICK O. ROWE
PRESIDENT

WITNESSED BY:



REB/00131621

Attachment 1

Current Officers:

President	Nick O. Rowe
Vice-President, Corporate Counsel, and Secretary	A. W. Turner, Jr.
Treasurer and Comptroller	Rochelle Kowalski
Assistant Treasurer	Michael A. Miller
Assistant Secretary	Velma A. Redmond
Assistant Comptroller and Assistant Secretary	Rachel S. Cole
Assistant Comptroller	Franco G. Boffice
Assistant Comptroller	Charles A. Gilbert
Assistant Comptroller	Doneen S. Hobbs
Assistant Comptroller	Rod Nevirauskas

Management Changes:

William Fred White is no longer an employee of Kentucky American Water due to retirement. Jarold Jackson is now the Network Supervisor at Kentucky American Water, 2300 Richmond Road, Lexington, Kentucky 40502.